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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

JANUARY 15, 1980

B-197328

The Honorable James J. Florio
Chairman, Subcommittee on
Transportation and Commerce
Committee on Interstate and
Foreign Commerce
House of Representatives

HSE 7306



Dear Mr. Chairman:

Subject: Conrail's 5-year Plan For Abandoning Or
Discontinuing Service Over Its Rail
Lines (CED-80-51)

*CRB 1080
CRB 261*

This is the first in a series of three reports we plan to issue pursuant to your August 24, 1979, request asking us to evaluate the Consolidated Rail Corporation's (Conrail's) August 1, 1979, 5-year business plan. The matters discussed in this report only address your questions about Conrail's plans to abandon or discontinue service on certain rail lines. Conrail refers to these plans as "plant rationalization" which includes abandonment as well as other options such as transferring traffic to other rail carriers or sustaining service with Federal, State, or local support. Your other questions will be addressed in separate reports as our review work is completed.

In our discussions with your office, we agreed that the specific questions regarding Conrail's abandonment plans could be restated as follows:

- How did Conrail determine which lines would be abandoned?
- How do Conrail's abandonment plans compare with each other and with United States Railway Association (USRA) studies?
- What would happen to the traffic on lines planned for abandonment?

*Railroad transportation operations
Railroad regulation
Railroad industry
508304
Federal aid to railroads (343745)
Railroad research*

OVERALL OBSERVATIONS

Neither Conrail's business plans nor USRA's plant rationalization studies are sufficiently detailed to indicate what might actually be done if plant rationalization was adopted as a strategy for improving service and operations. However, the studies did offer several traffic and service alternatives on lines that are subject to rationalization. These alternatives are discussed on page 6. The studies intended mainly to indicate how much of Conrail's system is marginal under deregulation assumptions. Conrail is not actively pursuing the detailed studies needed to actually abandon any lines. Under current regulation, the Interstate Commerce Commission decides on proposed abandonments in accordance with prescribed rules and procedures. Accordingly, without substantial regulatory reform, it would be time consuming and costly for Conrail to try to abandon route mileage as extensive as estimated in any of its plans.

As we reported in our April 2, 1979, report entitled "Information on Questions about Conrail's Track Abandonment Program," Conrail deferred its abandonment initiatives pending the outcome of regulatory reform legislation. Conrail's August 1, 1979, business plan was premised on the enactment of complete regulatory reform legislation permitting railroads to function as though in a free market. This included the freedom to discontinue serving traffic that is unprofitable and cannot be made profitable. Conrail now thinks there will be little or no change to existing legislation covering abandonment and discontinuance of service over rail lines.

Our analysis of plant rationalization included a review of Conrail's August 1, 1979, business plan and an earlier March 15, 1979, business plan. We also examined pertinent USRA documents, including detailed maps of Conrail's rail system. We discussed matters in this report with Conrail and USRA who agreed our information is accurate.

BACKGROUND

Conrail's August 1, 1979, 5-year business plan contained a current plan and two contingency plans. The current plan assumed that complete railroad deregulation would begin

in 1981 and that Government investment in Conrail would be limited to the currently approved level of \$3.3 billion. In this plan, Conrail proposed to reduce its rail system by 1,940 route miles. Contingency plan 1, called the geographic reduction plan, assumed there would not be any regulatory reform and no change in Federal funding; Conrail proposed a reduction of approximately 2,200 route miles under this plan. Contingency plan 2 was essentially a continuation of Conrail's prior plans. It projected no change in the regulatory environment and anticipated the availability of additional Federal funding. Conrail estimated that about 1,730 route miles would be abandoned under this plan, the same as it estimated in its earlier March 15, 1979, business plan.

In a September 1979 staff report entitled "Alternatives for Conrail" USRA presented three scenarios involving reductions to the physical plant of 3,700, 4,600, and 6,200 route miles. These reductions were based on assumptions about regulatory reforms, improvements in operating efficiency, and additional Federal funding.

HOW DID CONRAIL DETERMINE
WHICH LINES WOULD BE ABANDONED?

Conrail used two different methods to determine which route miles were not profitable, and the results were essentially the same. The 1,730 route miles identified in the March 15, 1979, plan and contingency plan 2, of the August 1, 1979, plan, originated from a Conrail light-density line study started during 1976. This study is described in our April 2, 1979, report. For the current plan and contingency plan 1, Conrail screened its lines by measuring the carloads moving over individual line segments. Lines carrying less than 20 carloads per day and/or one unit train per week were considered abandonment candidates.

The following schedule compares proposed reductions under Conrail's various plans in terms of both route miles and track miles.

Track Reductions Proposed Under Various Plans

	March 15, 1979, <u>business plan</u>	August 1, 1979, <u>business plan</u>		
		<u>Current plan</u>	<u>Contingency plan 1</u>	<u>Contingency plan 2</u>
Route miles	1,730	1,940	2,200	1,730
Track miles	3,530	5,000-7,000	3,000-5,000	3,500

The estimated route-mile reductions represent about 10 to 13 percent of Conrail's total route miles, but the difference in route-mile reductions between each plan is only about 1 to 3 percent. The estimated track-mile reductions are only approximations because Conrail's models do not readily permit such specific identification. Track miles represent all track associated with a route, including double track, siding to customers, and switching track. According to USRA, a significant portion of the proposed track-mile reductions are within metropolitan areas and are industrial track serving retail businesses.

Conrail's light-density line study was designed to identify lines that were not contributing to Conrail's financial condition. Conrail screened about 12,000 of its 17,000 mile route system to select lines carrying less than 100 carloads per mile per year for further analysis. The proposed reduction of 1,730 route miles included in the March plan and contingency plan 2 evolved from this analysis. Conrail projected that 1,500 miles would be contested by affected parties and 230 could be abandoned without contest. Conrail said it is continuing to study those lines shown on a system diagram map submitted to the Interstate Commerce Commission, designating certain lines as abandonment candidates, but it has declared a moratorium on the preparation and filing of abandonment petitions for lines that are active carriers of freight. That moratorium will continue until the outcome of pending regulatory reform legislation is known. In the interim, Conrail will file for abandonment of those lines that no longer have any active shippers.

For the current plan and contingency plan 1, Conrail used traffic volume as its criterion for determining

abandonment candidates. The volume level was 20 carloads per day and/or one unit train per week of contributory traffic. Conrail defines contributory traffic as a situation where revenues generated exceed long-term variable cost. Using a network model which divides Conrail's rail system into about 500 separate links, (that is, a rail line connecting two geographically defined service areas) Conrail identified all the traffic originating or terminating in each link. If the traffic on the link did not meet the volume criteria, the link was considered a candidate for abandonment. The candidate lines were then analyzed to determine whether they could be made profitable. For example, in the current plan, which assumes Conrail will be free from regulatory restraint, Conrail estimates that certain noncontributory traffic would react favorably to pricing changes and could be retained as contributory traffic. In contingency plan 1, an environment with regulatory restraint, Conrail assumed that pricing strategies would not save any lines. This different assumption accounts for the 240 route-mile difference between the two plans.

A Conrail official acknowledged that the methodology used for the current plan and contingency plan 1 was general and probably overestimated the number of unprofitable links. Nevertheless, they feel it provided a general idea of how the rail system would look under various operating scenarios.

HOW DO CONRAIL'S LINE ABANDONMENT
PLANS COMPARE WITH EACH OTHER
AND WITH USRA STUDIES?

As we noted, the estimated route-mile reductions included in the various Conrail plans do not vary significantly, but USRA's estimates in its "Alternatives for Conrail" study vary substantially from Conrail's estimates. USRA presented possible reductions of 3,700, 4,600, and 6,200 route miles which encompassed Conrail's proposed reductions.

The additional route miles identified by USRA over and above Conrail's projections result from the different methodologies, network models, and deregulation assumptions used. For example, Conrail used a network model

dividing Conrail into about 500 links and a simple volume criteria to identify possible abandonment candidates. USRA, on the other hand, used an operations cost model which calculated revenues and costs associated with all traffic originating and terminating on about 2,000 line segments and provided more detailed data than the network model Conrail used. USRA, which assumed less pricing freedom than Conrail, projected 3,700 miles could be rationalized in its first scenario.

For USRA's second scenario, an additional 900 miles was deleted from Conrail's system. USRA said the principal reason for this difference was that traffic removed in the first scenario caused maintenance and transportation costs to be spread over a smaller base resulting in an additional 900 route miles of unprofitable lines.

The third USRA scenario, which projected a 6,200 route-mile reduction, assumed that any line segment whose revenues did not exceed its costs would be rationalized and that marketing considerations would not influence the decision to retain or abandon lines. The 6,200 route miles represents line segments that would not be profitable to Conrail under these assumptions.

WHAT WOULD HAPPEN TO TRAFFIC
ON LINES THAT ARE ABANDONED?

Neither Conrail nor USRA have precisely identified what would happen to the freight traffic on lines projected for rationalization. Conrail and USRA agree that abandonment would occur only after other actions were investigated. A Conrail official said that it would not immediately abandon lines identified as noncontributory. Conrail's first objective would be to make the line profitable. In the current plan, Conrail assumed that some lines would respond favorably to certain pricing actions in a changed regulatory environment. For example, Conrail expects that some of its noncontributory business could be absorbed by its trailer-on-flatcar business and has assumed that its trailer-on-flatcar traffic would increase 5 percent. For traffic not susceptible to movement as trailer-on-flatcar, Conrail points out that rail service

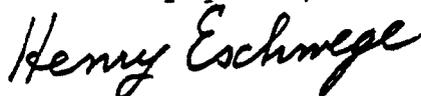
might be preserved on either a short-line or subsidized basis. Should rail service not be preserved, the shipper has the alternative of using trucks or other modes of transportation. The affected shipper must also consider entering other markets or--as a last resort--going out of business entirely.

USRA makes similar assumptions. For example, USRA in its staff study, said some lines could be retained in the Conrail system through actions to improve earnings on those track segments; the traffic could be transferred to other rail carriers; or the lines could be continued in operation under existing rail subsidy programs.

Conrail considers the specific lines it has identified for possible abandonment as proprietary information and is reluctant to publicly identify which lines are potential abandonment candidates because of the preliminary nature of its studies. Conrail said that unless and until those findings can be confirmed by more detailed analysis disclosure could discourage shipper commitment to use the lines and increase Conrail's problems in finding ways to keep lighter density lines operating profitably. USRA, however, has identified and has included in its staff study those line segments which its studies have indicated are rationalization candidates. Also, as noted, Conrail filed with the Interstate Commerce Commission a system diagram map specifying certain lines as abandonment candidates.

As arranged with your office, we are sending copies of this report to interested congressional committees, subcommittees, and Federal agencies. Copies will be furnished to other interested parties upon request.

Sincerely yours,



Henry Eschwege
Director